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November 7, 2000

VIA OVERNIGHT MAIL

Mr. David Waddell
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 32743-0505

Re: 360networks (USA) inc. - Docket No. 00-00860

Dear Mr. Waddell:

Enclosed please find for filing an original and thirteen (13) copies of responses to Staff data requests to be filed in 360networks (USA) inc.'s (Applicant) Application for a Certificate of Public Convenience and Necessity to Provide Competing Local Exchange Telecommunications Services in Tennessee in Docket No. 00-00860.

APPLICANT HAS ALSO ENCLOSED THIRTEEN (13) COPIES OF ITS PROJECTED FINANCIAL INFORMATION IN A SEPARATE ENVELOPE AND HEREBY RESPECTFULLY REQUESTS CONFIDENTIAL TREATMENT OF THE ENCLOSED PROJECTED FINANCIAL INFORMATION THAT CONTAINS CONFIDENTIAL AND PROPRIETARY INFORMATION. APPLICANT EXPECTS THAT THIS INFORMATION WILL BE RESTRICTED TO COUNSEL, AGENTS AND EMPLOYEES WHO ARE SPECIFICALLY ASSIGNED TO THIS APPLICATION BY THE COMMISSION.

I have also enclosed an extra copy of this letter to be date stamped and returned to me in the enclosed, self-addressed, postage prepaid envelope. If you have any questions or if I may provide you with any additional information, please do not hesitate to contact me. Thank you.

Respectfully submitted,



Anthony Cooke
Director of Government Affairs for
Lance J.M. Steinhart
Attorney for 360networks (USA) inc.

cc: Julie Hawkins

Managerial Requirements

1 & 2. The management team of 360networks (USA) inc., have extensive knowledge and experience in the telecommunications industry. As stated in Exhibit D of the Application, Mr. Stevenson, Mr. Love, Mr. Tinney and Mr. Tharp have over 100 years of telecommunications experience.

Technical Requirements

1. Applicant requests statewide authority except the exchange service areas of rural ILEC providers. Applicant does not intend to service areas serviced by any ILECs, which are eligible for a small or rural carrier exemption pursuant to Section 251 of the Federal Telecommunications Act of 1996.
2. Applicant does not own or operate any telecommunications switches in the state of Tennessee.
3. Applicant does not own or operate any special CPE that would not be compatible with an incumbent carrier.

Financial Requirements

1. Attached hereto as Exhibit A is a copy of 360networks, inc.'s Balance Sheet as of June 30, 2000, Statement of Operations for the six months ending June 30, 2000, Statement of Cash Flows for the six months ending June 30, 2000 and Statements of Changes in Stockholders' Equity for the six months ending June 30, 2000.
2. Attached hereto as Exhibit B is a Projected Income Statement, Balance Sheet and Statement of Cash Flows for 2000 to 2005.
3. Applicant does not anticipate any capital expenditures in the state of Tennessee in the near future.
4. Applicant's revenues listed in financial statements and projections do not include reciprocal compensation for terminating ISP traffic.
5. Applicant previously submitted a surety bond in the amount of \$20,000 to the TRA.

Small and Minority-Owned Telecommunications Business Participation Plan

Attached hereto as Exhibit C is Applicant's Small & Minority Owned Telecommunications Business Participation Plan.

360networks (USA) inc. (Applicant)
Docket No. 00-00860
November 7, 2000

Toll Dialing Parity Plan

1. Proposed implementation date to provide toll dialing parity will be the date on which Applicant provides voice grade service to an end user in the state of Tennessee.
2. Applicant proposes to provide intraLATA toll dialing parity in the exchange areas currently served by BellSouth.
3. Applicant proposes to provide telecommunications services in the Nashville and Memphis LATAs.
4. Applicant proposes to allow for a PIC change charge waiver for a period of ninety days.
5. Applicant proposes to comply with all Tennessee Regulatory Authority and FCC rules and regulations with regard to slamming, including the rule for Letters of Agency from customers.
6. Applicant proposes to allow for nondiscriminatory access for telephone numbers, operator services, directory assistance, and directory listings.
7. Applicant will comply with all rules of the FCC and the TRA.

Miscellaneous

1. Applicant does not propose to collect customer deposits.
2. Applicant does not propose to provide service services in areas served by any incumbent local exchange telephone company with fewer than 100,000 total access lines.
3. Applicant proposes to provide consumer access to and support for the Tennessee Relay Center in the same manner as the incumbent local exchange telephone companies.
4. Applicant proposes to provide free blocking service for 900, 976 type services in accordance with TRA policy.

EXHIBIT A

360networks, inc.'s Balance Sheet as of June 30, 2000, Statement of Operations for the six months ending June 30, 2000, Statement of Cash Flows for the six months ending June 30, 2000 and Statements of Changes in Stockholders' Equity for the six months ending June 30, 2000

CONDENSED CONSOLIDATED BALANCE SHEETS (U.S. GAAP)

| Unaudited (in millions of U.S. dollars) | June 30 2000 | December 31 1999 |
|--|-----------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,529 | \$ 521 |
| Restricted cash | 80 | - |
| Unbilled revenue (note 4) | 226 | 116 |
| Inventory (note 4) | 209 | 197 |
| Other current assets (note 4) | 57 | 56 |
| Deferred tax asset | 9 | 9 |
| | <u>2,110</u> | <u>899</u> |
| Restricted cash | 275 | - |
| Property and equipment - net (note 4) | 310 | 77 |
| Network assets under construction | 799 | 301 |
| Goodwill - net (note 5) | 857 | - |
| Deferred tax asset | 53 | 12 |
| Other - net | 160 | 22 |
| | <u>\$ 4,564</u> | <u>\$ 1,311</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 4) | \$ 258 | \$ 191 |
| Deferred revenue | 45 | 19 |
| Income taxes payable | 57 | 34 |
| | <u>360</u> | <u>244</u> |
| Deferred tax liability | 3 | 3 |
| Long-term debt (note 6) | 2,021 | 675 |
| | <u>2,384</u> | <u>922</u> |
| | - | 9 |
| Minority interest | | |
| Redeemable Convertible Preferred Stock (note 7) | | |
| Issued and outstanding | | |
| Nil (1999 - 150,951,312) Series A Non-Voting Redeemable Convertible Preferred Shares including accretion of discount from redemption value of \$6 million and net of issuance costs of \$2 million | - | 350 |
| Stockholders' Equity | | |
| Common stock (note 7) | | |
| Authorized | | |
| Unlimited number of Subordinate Voting Shares (formerly Class A Non-Voting Shares and Class B Subordinate Voting Shares) and Multiple Voting Shares, no par value | | |
| Issued and outstanding | | |
| 726,895,511 (1999 - 436,056,000) Subordinate Voting Shares (formerly Class A Non-Voting Shares and Class B Subordinate Voting Shares) | 2,383 | 247 |
| 81,840,000 (1999 - 81,840,000) Multiple Voting Shares | 45 | 45 |
| Other capital accounts | (23) | (221) |
| (Deficit) | (225) | (41) |
| | <u>2,180</u> | <u>30</u> |
| | <u>\$ 4,564</u> | <u>\$ 1,311</u> |
| Commitments (note 10) | | |
| Subsequent events (note 11) | | |

The accompanying notes are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (U.S. GAAP)

| Unaudited (in millions of U.S. dollars) | 3 Months Ended June 30 | | 6 Months Ended June 30 | |
|---|------------------------|-------------|------------------------|-------------|
| | 2000 | 1999 | 2000 | 1999 |
| Revenue | \$ 158 | \$ 81 | \$ 234 | \$ 124 |
| Costs | 100 | 54 | 147 | 86 |
| Gross Profit | 58 | 27 | 87 | 38 |
| Expenses | | | | |
| Selling, general and administration | 24 | 3 | 36 | 6 |
| Stock-based compensation | 105 | 1 | 153 | 2 |
| Depreciation and amortization | 7 | - | 8 | - |
| | 136 | 4 | 197 | 8 |
| | (78) | 23 | (110) | 30 |
| Interest expense | 36 | 2 | 52 | 8 |
| Interest income | 21 | - | 28 | 2 |
| (Loss) income before income taxes and minority interest | (93) | 21 | (134) | 24 |
| (Recovery) provision for income taxes (note 8) | | | | |
| Current | 47 | 9 | 54 | 10 |
| Deferred | (37) | - | (41) | 1 |
| | 10 | 9 | 13 | 11 |
| | (103) | 12 | (147) | 13 |
| Minority interest | 1 | 2 | 2 | 3 |
| Net (loss) income for the period | (104) | 10 | (149) | 10 |
| Basic and fully diluted (loss) income per share (note 2) | (0.19) | 0.03 | (0.33) | 0.04 |
| Weighted average number of shares used to compute basic (loss) income | 644,709,000 | 381,496,000 | 542,174,000 | 231,429,000 |
| Weighted average number of shares used to compute fully diluted (loss) income per share | 644,709,000 | 385,198,000 | 542,174,000 | 236,921,000 |

The accompanying notes are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY (U.S. GAAP)**

For the six months ending June 30, 2000

| Unaudited (in millions of U.S. dollars) | Subordinate Voting Shares (formerly Class A non-Voting and Class B Subordinate Voting Shares) | | Multiple Voting Shares | |
|--|---|----------|---------------------------|--------|
| | Number of shares | Amount | Number of shares | Amount |
| Balance, December 31, 1999 | 436,056,000 | \$ 247 | 81,840,000 | \$ 45 |
| Accretion of Preferred Stock to redemption value | | | | |
| Purchase price adjustment to Preferred Shares | | | | |
| Employee option grants | | | | |
| Amortization of deferred compensation expense | | | | |
| Issuance of shares for services rendered | 411,214 | 1 | | |
| Acquisition of remaining 25% interest not owned by the company in 360networks-CN Ltd. and 360networks LLC | 11,428,571 | 160 | | |
| Issuance of shares for cash net of share issuance costs | 51,566,250 | 682 | | |
| Issuance of shares and options on acquisition of GlobeNet (note 5) | 42,822,316 | 600 | | |
| Acquisition of remaining 25% interest in 360networks Holdings (USA) inc. | 22,285,714 | 312 | | |
| Conversion of Preferred Shares to Subordinate Voting Shares | 160,084,346 | 380 | | |
| Issuance of shares on exercise of stock options | 2,241,100 | 1 | | |
| Contribution by principal shareholders (note 7) | | | | |
| Other | | | | |
| Comprehensive income | | | | |
| Net (loss) for the period | | | | |
| Accumulated other comprehensive income - foreign currency translation | | | | |
| Total comprehensive income | | | | |
| Balance June 30, 2000 | 726,895,511 | \$ 2,383 | 81,840,000 | \$ 45 |

| Other capital accounts | | | | | Accumulated other comprehensive income | | | | Total stockholders' equity | | |
|------------------------|------|----------------------------|-----|-----------------------|--|----|-----------|----|----------------------------|----|-------|
| Note receivable | | Additional paid in capital | | Deferred Compensation | | | (Deficit) | | | | |
| \$ | (77) | \$ | 44 | \$ | (188) | \$ | - | \$ | (41) | \$ | 30 |
| | | | | | | | | | (6) | | (6) |
| | | | 128 | | (128) | | | | (24) | | (24) |
| | | | | | 95 | | | | | | - |
| | | | | | | | | | | | 95 |
| | | | | | | | | | | | 1 |
| | | | | | | | | | | | 160 |
| | | | | | | | | | | | 682 |
| | | | 32 | | | | | | | | 632 |
| | | | | | | | | | | | 312 |
| | | | | | | | | | | | 380 |
| | | | | | | | | | | | 1 |
| | | | 68 | | 5 | | | | (5) | | 68 |
| | | | | | | | | | | | - |
| | | | | | | | | | (149) | | - |
| | | | | | | | | | | | - |
| | | | | | | | (2) | | | | - |
| \$ | (77) | \$ | 272 | \$ | (216) | \$ | (2) | \$ | (225) | \$ | (151) |
| | | | | | | | | | | | 2,180 |

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (U.S. GAAP)

For the six months ending June 30, 2000 and 1999

| Unaudited (in millions of U.S. dollars) | 2000 | 1999 |
|--|-----------------|--------------|
| Cash flows used in operating activities | | |
| Net (loss) income | \$ (149) | \$ 12 |
| Adjustments to reconcile net (loss) income to net cash used for operating activities | | |
| Stock-based compensation | 153 | - |
| Other | 26 | - |
| Changes in operating working capital items | (93) | (62) |
| | (63) | (50) |
| Cash flows used in investing activities | | |
| Additions to property, plant, equipment and network assets | (535) | (19) |
| | (535) | (19) |
| Cash flows used in financing activities | | |
| Proceeds from initial public offering | 682 | - |
| Proceeds from senior notes offering | 768 | - |
| Proceeds from 360atlantic credit facility | 175 | - |
| Other | (18) | (1) |
| | 1,607 | (1) |
| Effect of exchange rate on cash and cash equivalents | (1) | - |
| Net increase (decrease) in cash and cash equivalents | 1,008 | (70) |
| Cash and cash equivalents - Beginning of period | 521 | 156 |
| Cash and cash equivalents - End of period | \$ 1,529 | \$ 86 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(U.S. GAAP)

Tabular amounts expressed in millions of U.S. dollars (Unaudited)

1. THE COMPANY

360networks inc. (the "Company") has operations which consist of designing, engineering, constructing, installing and operating telecommunications systems for sale or lease to third parties. For the six months ended June 30, 2000 and 1999, the Company's revenue is derived primarily from the construction and installation of fiber optic network assets for telecommunications companies in North America.

Name change

On March 14, 2000, the Company changed its name from Worldwide Fiber Inc. to 360networks inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation. The accompanying interim condensed consolidated financial statements of the Company do not include all notes in annual financial statements and therefore should be read in conjunction with the Company's annual financial statements. The accompanying financial statements include all normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the Company's financial position at June 30, 2000 and 1999, and its results of operations and cash flows for the three month and six month periods then ended.

Restricted Cash

Restricted cash is classified as such under the terms of the 360americas Credit Facility. The use of this cash is restricted to operating and capital expenditures related to the 360americas project and other telecommunications activities.

(Loss) income per share

Basic (loss) income per share is computed by dividing net (loss) income attributable to common stockholders by the weighted average number of Subordinate Voting Shares (formerly Class A Non-Voting Shares and Class B Subordinate Voting Shares) and Multiple Voting Shares (formerly Class C Multiple Voting Shares) outstanding for the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including stock options and redeemable convertible preferred shares, in the weighted average number of common shares outstanding for a period, if dilutive.

The following table sets forth the computation of (loss) income attributable to common stockholders:

| | 3 Months Ended June 30 | | 6 Months Ended June 30 | |
|---|------------------------|-------|------------------------|-------|
| | 2000 | 1999 | 2000 | 1999 |
| Net (loss) income | \$ (104) | \$ 10 | \$ (149) | \$ 10 |
| Less: | | | | |
| Preferred stock accretion | (1) | - | (6) | - |
| Purchase price adjustment to preferred shares | (15) | - | (24) | - |
| Net (loss) income attributable to common stockholders | (120) | 10 | (179) | 10 |

The Redeemable Convertible Preferred Shares and stock options are not included in the computation of fully diluted (loss) income per share as their effect is anti-dilutive.

Comparative financial information

Certain prior period amounts have been reclassified to conform to the current year presentation.

3. SUPPLEMENTAL CASH FLOW INFORMATION

| | 6 Months Ended June 30 | |
|--|------------------------|------|
| | 2000 | 1999 |
| Cash paid for income taxes | \$ 20 | \$ 1 |
| Cash paid for interest | 43 | 11 |
| Issuance of common shares for certain Ledcor assets with deferred tax asset of \$3,136,000 | - | 25 |
| Supplemental non-cash investing and financing activities | | |
| Accretion of Preferred Stock to redemption value | 6 | - |
| Conversion of Series A Preferred Shares to Subordinate Voting Shares | 356 | - |
| Issuance of Subordinate Voting Shares for acquisition of: | | |
| 100% interest in GlobeNet Communications Group Limited | 600 | - |
| 25% interest in 360networks (CN) Ltd and | 160 | - |
| 25% interest in 360networks (USA) inc | 312 | - |

4. BALANCE SHEET COMPONENTS

| | June 30 2000 | December 31 1999 |
|--|-----------------|---------------------|
| Unbilled revenue | | |
| Revenue earned on uncompleted contracts | \$ 572 | \$ 333 |
| Less: billings to date | 346 | 217 |
| | <u>226</u> | <u>116</u> |
| Inventory | | |
| Fiber optic network assets | 207 | 188 |
| Construction supplies, small tools and other | 2 | 9 |
| | <u>209</u> | <u>197</u> |
| Other current assets | | |
| Trade accounts receivable | 56 | 34 |
| Interest receivable and other | 1 | 1 |
| Short-term investments | - | 21 |
| | <u>57</u> | <u>56</u> |
| Property and equipment | | |
| Land | 46 | 6 |
| Buildings | 9 | - |
| Fiber optic network assets | 164 | 64 |
| Equipment | 104 | 10 |
| | <u>323</u> | <u>80</u> |
| Less: accumulated depreciation | 13 | 3 |
| | <u>310</u> | <u>77</u> |
| Property and equipment - net | | |
| Accounts payable and accrued liabilities | | |
| Subcontractor and supplier costs | 171 | 100 |
| Subcontractor holdbacks payable | 37 | 26 |
| Other accrued liabilities | 5 | 36 |
| Interest payable | 45 | 29 |
| | <u>\$ 258</u> | <u>\$ 191</u> |

5. ACQUISITIONS**360networks (CN) Ltd and 360networks LLC**

In March 2000, the Company entered into an agreement with Canadian National Railway and Illinois Central to acquire their respective 25% interests in **360networks (CN) Ltd.** and **360networks LLC** in exchange for 11,428,571 Subordinate Voting Shares of the Company. Pursuant to this agreement, payment terms for right-of-way fees were amended requiring the right-of-way fees to be paid over a three-year term. The acquisition was accounted for using the purchase method and the purchase price was allocated as follows:

| | |
|---|---------------|
| Purchase Price: | \$ 160 |
| Less: | |
| Fair value of net assets acquired | 5 |
| Excess of cost over fair value of net assets acquired | <u>155</u> |
| Allocation of excess of cost over fair value of net assets acquired, being goodwill | <u>\$ 155</u> |

Goodwill arising on acquisition will be amortized on a straight-line basis over 25 years.

360networks holdings (USA) inc.

In April 2000, the Company acquired the remaining 25% of shares of 360networks holdings (USA), (formerly Worldwide Fiber Holdings (USA) Inc.), in exchange for 22,285,714 Subordinate Voting Shares of the Company. The acquisition was accounted for using the purchase method and the purchase price was allocated as follows:

| | | |
|---|----|-----|
| Purchase Price: | \$ | 312 |
| Less: | | |
| Fair value of net assets acquired | | 5 |
| Excess of cost over fair value of net assets acquired | | 307 |
| Allocation of excess of cost over fair value of net assets acquired, being goodwill | \$ | 307 |

Goodwill arising on acquisition will be amortized on a straight-line basis over 25 years.

GlobeNet Communications Group Limited

In June 2000, the Company acquired 100% of the outstanding shares of GlobeNet Communications Group Limited, a provider of international telecommunications services and capacity, in exchange for 42,822,316 Subordinate Voting Shares and 4,747,452 options to purchase Subordinate Voting Shares of the Company. The acquisition has been accounted for using the purchase method. The total consideration was \$632 million representing 42,822,316 shares issued at the initial public offering price and 4,747,452 options valued at fair value. The purchase price was allocated as follows:

| | | |
|---|----|-----|
| Purchase Price: | \$ | 632 |
| Less: | | |
| Fair value of net assets acquired | | 229 |
| Excess of cost over fair of net assets acquired | | 403 |
| Allocation of excess of cost over fair value of net assets acquired, being goodwill | \$ | 403 |

Goodwill arising on acquisition will be amortized on a straight-line basis over 15 years.

The following unaudited condensed combined financial information of the Company and GlobeNet shows the results of operations had the acquisition been completed at the beginning of the periods presented.

| | 6 Months Ended June 30 | |
|-----------------------------|------------------------|--------|
| | 2000 | 1999 |
| Revenue | \$ 247 | \$ 140 |
| (Loss) income | (173) | 11 |
| Net (loss) income per share | (0.30) | 0.04 |

6. LONG-TERM DEBT

| | June 30 2000 | December 31 1999 |
|--|-----------------|---------------------|
| 12.5% senior notes due 2005 | \$ 175 | \$ 175 |
| 12% senior notes due 2009 | 500 | 500 |
| 13% senior notes due 2008 | 771 | - |
| 360atlantic credit facility | 175 | - |
| GlobeNet 360americas secured credit facility | 100 | - |
| GlobeNet 13% senior notes due 2007 | 300 | - |
| | \$ 2,021 | \$ 675 |

13% Senior Notes due 2008

On April 20, 2000 the company issued \$787,380,000 13% senior notes due 2008 (the "Notes"). The Notes were issued in two tranches. The US\$ tranche was for proceeds of \$586 million. The Euro tranche was for proceeds of \$185 million.

The Notes are unsecured obligations of the Company bearing interest at 13% payable semi-annually. The Notes are due May 1, 2008. If a change in control occurs, as defined in the Notes Indentures, the holders of the Notes can require the Company to repurchase all or part of the Notes at 101% of the principal amount. Where proceeds from certain asset sales, as defined in the Notes Indentures, exceeds \$ 10 million the Company is required to make an offer to repurchase the maximum amount of the notes that can be repurchased with such excess proceeds at an offer price equal to 100% of the principal amount.

The interest rate on the Notes is subject to increase if the Company does not file a registration statement with the Securities and Exchange Commission within a certain time period specified in the Notes Indenture.

360atlantic credit facility

The Company has entered into a credit agreement with certain lenders pursuant to which the lenders have provided a credit facility totalling U.S. \$565 million for the 360atlantic cable project. The credit arrangement consists of three distinct commitments: a \$365 million term loan (Tranche A), a \$175 million term loan (Tranche B) and a \$25 million working capital loan. As at June 30, 2000, \$175 million of Tranche B loan commitment has been drawn down. The Tranche B term loan bears interest at Base Rate plus 3.25% or a Eurodollar rate plus 4.25%. The interest on the drawn down Tranche B loan commitment ranged from 10% to 12% in the six months and amounted to \$6 million. The lenders' security for the loan is a first priority lien on all of the assets of the 360atlantic subsidiaries.

GlobeNet 360Americas Credit Facility

On July 14, 1999, GlobeNet secured a bank credit facility ("Credit Facility") of up to \$400 million consisting of various term facilities totalling \$390 million and a revolving credit facility of \$10 million. In addition, under the Credit Facility, GlobeNet may also request an additional facility of up to \$50 million subject to lender approval and other restrictions. The Credit Facility matures in 2005. Interest rates on the Credit Facility range from LIBOR plus 3.5% to LIBOR plus 4% and availability of funds under the Credit Facility is subject to certain terms and conditions.

GlobeNet 13% Senior Notes due 2007

On July 14, 1999, GlobeNet issued debt in the principal amount of \$300 million in the form of 13% senior notes maturing July 15, 2007. Interest on these notes is payable semi-annually in arrears commencing January 15, 2000. The notes are unsecured.

7. SHARE CAPITAL**Series A Non-Voting Convertible Preferred Shares**

During the period the Company issued an additional 9,133,034 Series A Preferred Shares to the holders of such shares pursuant to the terms of their original agreement dated September 7, 1999.

Share split

On March 20, 2000, the Board of Directors approved a two-for-one share split of all classes of the Company's stock. All prior period share amounts have been presented on a post-share split basis.

Share Capital Reorganization

In April 2000, the Company reorganized its share capital as follows: the holders of existing Class B Subordinate Voting Shares converted or exchanged their shares into Class A Non-Voting Shares and all authorized but unissued Class B Subordinate Voting Shares were cancelled; the Series A Non-Voting Preferred Shares were converted or exchanged into our Class A Non-Voting Shares and all of the authorized but unissued Series A Preferred Shares, Series B Preferred Shares and Series C Preferred Shares were cancelled; the existing Class A Non-Voting Shares were redesignated as Subordinate Voting Shares and the terms were amended to provide the holders with one vote per share; the existing Class C Multiple Voting Shares were amended to provide the holders with 10 votes per share and the Class C Multiple Voting Shares were redesignated as Multiple Voting Shares.

Initial Public Offering

In April 2000 the Company completed an initial public offering consisting of 51,566,250 Subordinate Voting Shares for net proceeds of approximately \$682 million.

Concurrent with the Company's initial public offering certain principal shareholders of the Company sold shares to certain parties at a discount to the initial public offering price. Accordingly the Company has recorded an amount of \$68 million as additional paid in capital, charges in respect of stock-based compensation of \$59 million and charges to revenues of \$9 million.

8. INCOME TAXES**(Loss) income before income taxes and minority interest**

For the six months ended June 30, 2000 and June 30, 1999, the components (loss) income before income taxes and minority interest are as follows:

| | 2000 | 1999 |
|----------|-----------------|--------------|
| Canadian | \$ (121) | \$ 6 |
| U.S. | (19) | 18 |
| Other | 6 | - |
| | <u>\$ (134)</u> | <u>\$ 24</u> |

Current income taxes

For the six months ended June 30, 2000 and 1999, the provision for current income taxes consists of the following:

| | 2000 | 1999 |
|----------|--------------|--------------|
| Canadian | \$ 53 | \$ - |
| Other | 1 | 10 |
| | <u>\$ 54</u> | <u>\$ 10</u> |

9. SEGMENTED INFORMATION

The Company operates within a single operating segment being the installation and development of telecommunications assets. These telecommunications assets are being developed in Canada, the United States, Europe and South America including undersea links. A significant portion of the undersea links will be owned by a subsidiary in Barbados.

| | Revenues three months ended | | Revenues six months ended | | Property and equipment – net | | Assets under under construction | |
|---------------|-----------------------------------|-----------------|---------------------------------|-----------------|------------------------------------|----------------|---------------------------------------|----------------|
| | June 30 2000 | June 30 1999 | June 30 2000 | June 30 1999 | June 30 2000 | Dec 31 1999 | June 30 2000 | Dec 31 1999 |
| Canada | \$ 132 | \$ 25 | \$ 166 | \$ 31 | \$ 76 | \$ 38 | \$ 78 | \$ 47 |
| U.S. | 26 | 56 | 68 | 93 | 177 | 34 | 96 | 53 |
| Barbados | - | - | - | - | - | - | 274 | 170 |
| South America | - | - | - | - | 51 | - | 266 | - |
| Europe | - | - | - | - | 6 | 5 | 85 | 31 |
| | \$ 158 | \$ 81 | \$ 234 | \$ 124 | \$ 310 | \$ 77 | \$ 799 | \$ 301 |

The revenues are based on the location of the development activities.

10. COMMITMENTS

Network developments

The Company has, in the normal course of business, entered into agreements to provide construction services and telecommunications assets and services to third parties in Canada, the United States and Europe.

Undersea networks

The Company has committed to construct an undersea cable linking North America and Europe (360atlantic). The total cost of the project is expected to be approximately \$865 million. The Company has committed to construct an undersea cable linking North and South America (360americas). The total cost of the project is expected to be approximately \$900 million.

iAdvantage

The Company has entered into an agreement with iAdvantage, to provide network services to iAdvantage in exchange for data center facilities in Asia. The parties are committed to minimum expenditures on each others services for approximately \$70 million. The Company has also agreed to acquire \$100 million worth of shares of iAdvantage in exchange for \$100 million worth of shares of the Company if certain events occur.

11. SUBSEQUENT EVENTS

Acquisition of colocation facilities

In March 2000 the Company signed a letter of intent to acquire the outstanding membership interest in TRES Management L.L.C., Meet Me Room L.L.C. and associated properties located in San Antonio, Dallas, Los Angeles and Atlanta. The acquired companies operate as property managers. The Company has agreed to pay a total of \$144 million in shares and cash for the above purchases. As at June 30, 2000 the Company had paid approximately \$44 million for properties in San Antonio, Dallas, and Atlanta.

Acquisition of undersea network

In July 2000, the Company signed a letter of intent to acquire network assets on the C2C undersea cable linking a number of Asian locations. The Company has agreed to pay a total of \$800 million in cash for the above purchases.

EXHIBIT B

Projected Income Statement, Balance Sheet and Statement of Cash Flows for 2000 to 2005

EXHIBIT C

Small & Minority Owned Telecommunications Business Participation Plan


360networks (USA) inc.

**SMALL & MINORITY OWNED TELECOMMUNICATIONS BUSINESS
PARTICIPATION PLAN**

Pursuant to T.C.A. §65-5-212, as amended, 360networks (USA) inc., (“360networks”) submits this small and minority-owned Telecommunications business participation plan (the “Plan”) along with its Application for a Certificate of Public Convenience and Necessity to provide competing intrastate and local exchange services in Tennessee.

I. PURPOSE

The purpose of §65-5-212 is to provide opportunities for small and minority-owned businesses to provide goods and services to Telecommunications service providers. 360networks is committed to the goals of §65-5-212 and to taking steps to support the participation of small and minority-owned Telecommunications businesses in the Telecommunications industry. 360networks will endeavor to provide opportunities for small and minority-owned Telecommunications businesses to compete for contracts and subcontracts for goods and services. As part of its procurement process, 360networks will make efforts to identify and inform minority-owned and small businesses that are qualified and capable of providing goods and services to 360networks of such opportunities. 360networks’s representatives have already contacted the Department of Economic and Community Development, the administrator of the small and minority-owned Telecommunications assistance program, to obtain a list of qualified vendors. Moreover, 360networks will seek to increase awareness of such opportunities so that companies not otherwise identified will have sufficient information to participate in the procurement process.



II. DEFINITIONS

As defined in §65-5-212.

Minority-Owned Business. Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000).

Small Business. Small Business shall mean a business with annual gross receipts of less than four million dollars (\$4,000,000).

III. ADMINISTRATION

360networks's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting 360networks's full efforts to provide equal opportunities for small and minority-owned businesses. The Administrator of the Plan will be:

David Love, Senior Vice President
360networks (USA) inc.
143 Union Boulevard, Suite 300
Lakewood, Colorado 80228
Telephone: (303) 854-5000

The Administrator's responsibilities will include:

- (1) Maintaining an updated Plan in full compliance with §65-5-212 and the rules and orders of the Tennessee Regulatory Authority.

- (2) Establishing and developing policies and procedures necessary for the successful implementation of the Plan.
- (3) Preparing and submitting such forms as may be required by the Tennessee Regulatory Authority, including the filing of required annual updates.
- (4) Serving as the primary liaison to and cooperate with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-owned businesses to locate and use qualified small and minority-owned businesses as defined in §65-5-212.
- (5) Searching for and developing opportunities to use small and minority-owned businesses and encouraging such businesses to participate in and bid on contracts and subcontracts.
- (6) Providing records and reports and cooperate in any authorized surveys as required by the Tennessee Regulatory Authority.
- (7) Establishing a record-keeping system to track qualified small and minority-owned businesses and efforts to use such businesses.
- (8) Providing information and educational activities to persons within 360 networks and training such persons to seek out, encourage, and promote the use of small and minority-owned businesses.

In performance of these duties, the Administrator will utilize a number of resources, including:

Chambers of Commerce
The Tennessee Department of Economic and Community Development
The United States Department of Commerce
Small Business Administration
Office of Minority Business
The National Minority Supplier Development Counsel

The National Association of Women Business Owners
The National Association of Minority Contractors
Historically Black Colleges, Universities, and Minority Institutions

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily spelled out in the Administrator's duties above.

Additional efforts to provide opportunities to small and minority-owned businesses will include offering, where appropriate and feasible, small and minority-owned businesses assistance with technical, insurance, bonding, licensing, production, and deadline requirements.

IV. RECORDS AND COMPLIANCE REPORTS

360networks will maintain records of qualified small and minority-owned business and efforts to use the goods and services of such businesses. In addition, 360networks will maintain records of educational and training activities conducted or attended and of the internal procurement procedures adopted to support this plan.

360networks will submit records and reports required by the Tennessee Regulatory Authority concerning the Plan. Moreover, 360networks will cooperate fully with any surveys and studies required by the Tennessee Regulatory Authority.

360networks (USA) inc.

By: David Love
David Love
Senior Vice President

Dated: 11/3/00